PACIFIC INSIGHT

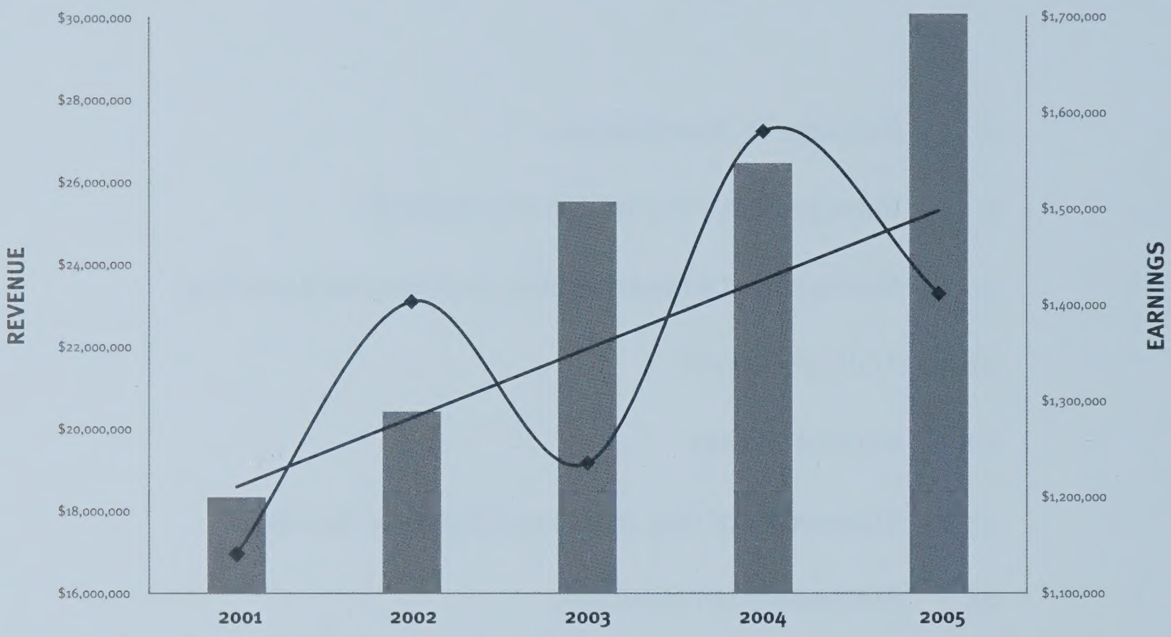
solution driven

2005 ANNUAL REPORT

PACIFIC INSIGHT ELECTRONICS CORP.

MESSAGE TO SHAREHOLDERS

On behalf of the Board of Directors, I am pleased to report to shareholders that we experienced yet another successful year at Pacific Insight Electronics Corp. Fiscal 2005 was the 13th consecutive year that the Company achieved record sales, posting over $30 million, which exceeded last years' sales by 14%. Another milestone was achieved with over a $9 million quarter in sales (Q4), besting our previous quarterly record by over 18%.



Pacific Insight Electronics Corp. Sales and Earnings History

Pacific Insight also generated a respectable net profit of $1.4 million or 18¢ earnings per share, despite the adverse affects of foreign exchange. The strengthening of the Canadian Dollar relative to the depreciating US dollar eroded sales and net profits substantially.

As exporters, currency fluctuations have hindered our ability to maintain a consistent ratio between growth in sales and relative profitability. We have grown our sales despite the strengthening of the Canadian dollar, which has moderated the impact of the currency exchange costs somewhat, but has required a much greater level of operational activity.

We expect sales in Q1 of 2006 to be consistent with sales in Q4 - 2005 (approximately $9 million), and this will be a record in first quarter sales performance. The comparative net profits for Q1 2006 should be significantly greater than those of Q1 2005. We are optimistic that the sales trend will continue throughout 2006, and it is our goal to exceed $36 million in sales for the 2006 fiscal year.

One of our biggest challenges currently is our ability to scale our business for new sales levels. We need to improve margins so our growth rate in profitability progresses at the same rate as sales. We face downward price pressures from our customers, who all operate internationally, and upward price pressures, from our suppliers, due to increases in global commodity prices that affect our cost of raw materials.

We continue to develop the appropriate infrastructure to move the Company forward and position it for future growth. Although these changes have added administrative costs, they have also positioned the Company to grow in a more scalable and profitable manner in the future. We are very pleased with the initial results of our efforts, and although there is considerably more work to do, we continue to recognize the necessity of these changes. We operate in a global economy, and as a Canadian manufacturer with unique and common pressures, we understand our niche position as a solution provider to our customers in their respective industry sectors.

To highlight the change within Pacific Insight, in fiscal 2005 we developed a new corporate identity that captures the spirit of our past and reflects our commitment to the future. The new "Solution Driven" motto affirms our commitment to be driven by our customers' needs for unique, high quality and cost effective electronic solutions. Moreover, it reflects our basic mission to be a full service value-added design and manufacturing Company for the commercial vehicle, off road, automotive and marine markets. Please take the time to visit our new look and presence at www.pacificinsight.com.

We have launched several new products this year, the most significant being the "Turn Stalk Module". This module will eventually be contented in every Class 8 Truck manufactured by one of our largest commercial vehicle manufacturing customers. This module has taken two years to develop and provides us greater access to an entire new line of commercial vehicle manufacturers. Presently, our commercial vehicle customers are experiencing excellent growth, which has driven our overall corporate sales to all time highs.

Although we face challenges going forward, we look to fiscal 2006 with a strong management team, a healthy balance sheet, a strong sales profile, and a sound and scalable cost structure in place. We have a strong customer base and continue to develop and deliver new electronic solutions. We intend to make 2006 the 14th consecutive year Pacific Insight has profitably increased revenues, and we are confident that our strategic long term investments in product research and development, infrastructure, and most importantly, our people, will make this possible.

On behalf of the Board,

"Bradley Smithson"

Brad Smithson
President and CEO

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The following Management's Discussion and Analysis (MD&A) of the financial condition and results of operations pertains to the fourth quarter and fiscal year ending June 30, 2005 of Pacific Insight Electronics Corp. (Pacific Insight, or the Company). This MD&A is intended to help readers understand Pacific Insight; its business, strategies, performance, and future outlook from the perspective of management. The information provided should be read in conjunction with the audited June 30, 2005 and June 30, 2004 annual financial statements, notes, and Annual Information Form. These documents, news releases, and other important information may be viewed through the SEDAR website at www.sedar.com. Our company web site www.pacificinsight.com also contains descriptions of our product lines, the Company history, and contact information.

The following MD&A may contain management estimates of anticipated future trends, activities, or results; these are not a guarantee of future performance, since actual results may vary based on factors and variables out of management's control.

Management is responsible for the preparation and integrity of the financial statements, including the maintenance of appropriate information systems, procedures and internal controls. Management is also responsible to ensure that information disclosed externally, including the financial statements and MD&A, is complete and reliable.

This MD&A has been prepared by reference to the MD&A disclosure requirements established under National Instrument 51-102 “Continuous Disclosure Obligations”. The audited financial statements for the year ended June 30, 2005 were prepared in accordance with Canadian generally accepted accounting principles and reported in Canadian dollars.

Pacific Insight's Board of Directors follows recommended corporate governance guidelines for public companies to ensure transparency and accountability to shareholders. The Board's Audit Committee meets with management quarterly to review the financial statement results, including the MD&A, and to discuss other financial, operating, and internal control matters. The Audit Committee receives a report from the independent auditors quarterly and annually, and is free to meet with them throughout the year.

OVERVIEW

Pacific Insight Electronics Corp. is a world-class designer, manufacturer and supplier of electronic solutions for the automotive, commercial vehicle, off road and marine sectors. A comprehensive overview of the Company and its products and services can be viewed on our company website, www.pacificinsight.com

SELECTED FINANCIAL INFORMATION

Figure 1

All figures in Canadian dollars All figures in thousands except EPS (earnings per share)	For the three months ended June 30		For the fiscal year ended June 30	
	2005	2004	**2005**	2004
Sales	**9,166**	7,712	**30,065**	26,440
Net earnings	**828**	871	**1,412**	1,580
EPS fully diluted	**11¢**	11¢	**18¢**	19¢
EBITDA (earnings before interest, taxes, depreciation, and amortization a non-GAAP measure)	**1,634**	1,624	**3,392**	3,138

For the year ending June 30, 2005 sales increased 14% to $30.06 million up from $26.44 million over the comparative year. After tax net earnings for the year were $1.41 million or 18¢ EPS as compared to $1.58 million or 19¢ EPS fully diluted last year. Pacific Insight continues to feel the adverse effects of the strengthening Canadian Dollar relative to the US Dollar. If the average exchange rate had not dropped 7.5% over the year, the Company would have increased sales by another $1.4 million, and net profits would have increased significantly. Management continues to take steps to counter the adverse effects of the continued rise in exchange rates.

For the fourth quarter ending June 30, 2005 Pacific Insight achieved a new quarterly sales record of $9.16 million up 19% from the comparative record quarter in 2004 of $7.71 million. EBITDA was $1.63 million in the fourth quarter of fiscal 2005 versus $1.62 million for the comparative quarter. After tax net earnings for the quarter were $828,000 or 11¢ EPS as compared to $871,000 or 11¢ EPS fully diluted. Looking forward, it is Managements' goal to surpass 2005 results both in sales and net profits, in the 2006 fiscal year._

SUMMARY OF QUARTERLY RESULTS

Figure 2

All figures in Canadian $ and ($000) except EPS and FX	Fiscal 2005				Fiscal 2004			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Divisional Sales								
LED Lighting	**1,893**	1,442	1,765	2,288	2,811	2,343	2,109	1,428
Instrumentation	**2,153**	1,882	1,416	1,245	946	981	816	784
Original Equip.	**1,737**	1,057	695	727	942	952	803	875
Wire & Cable	**2,486**	2,291	2,081	1,614	1,836	1,574	1,833	1,337
After-Market	**897**	668	799	929	1,177	1,164	1,073	656
Total Sales	**9,166**	7,340	6,756	6,803	7,712	7,014	6,634	5,080
Net Earnings	**828**	345	187	52	871	610	83	17
CDN/US $ FX rate as at end of Quarter	**1.2254**	1.2096	1.2020	1.2616	1.3338	1.3113	1.2965	1.3499
EPS (rounded)								
Basic	**11¢**	5¢	2¢	1¢	11¢	8¢	1¢	0¢
Fully Diluted	**11¢**	5¢	2¢	1¢	11¢	7¢	1¢	0¢

SELECTED HISTORICAL FINANCIAL INFORMATION

Figure 3

All figures in Canadian $	For the fiscal year ended			
	2005	2004	2003	2002
Sales	**30,065,000**	26,440,000	25,512,000	20,412,000
Net Earnings	**1,412,000**	1,580,000	1,236,000	1,404,000
EPS				
Basic	**18¢**	19¢	15¢	17¢
Fully Diluted	**18¢**	19¢	14¢	16¢

OVERALL CORPORATE RESULTS

Business Divisions

Pacific Insight has five divisional product groups: LED Lighting, Instrumentation, Original Equipment, Wire and Cable, and After-Market. The charts below illustrate Pacific Insight's sales mix for the years of fiscal 2005 and 2004, and the total divisional sales for each year.

Figure 4

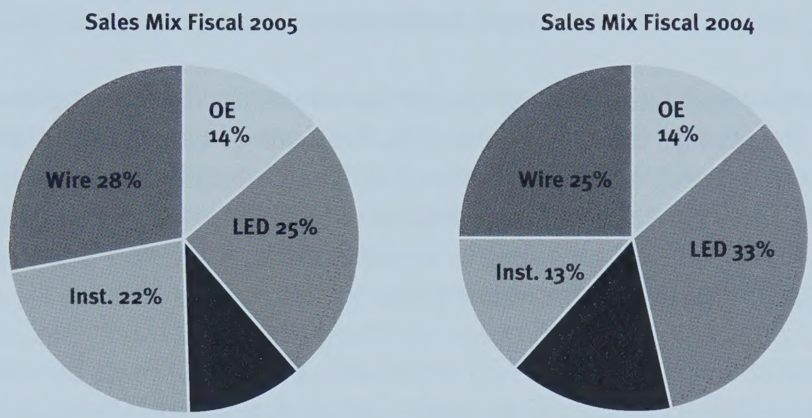
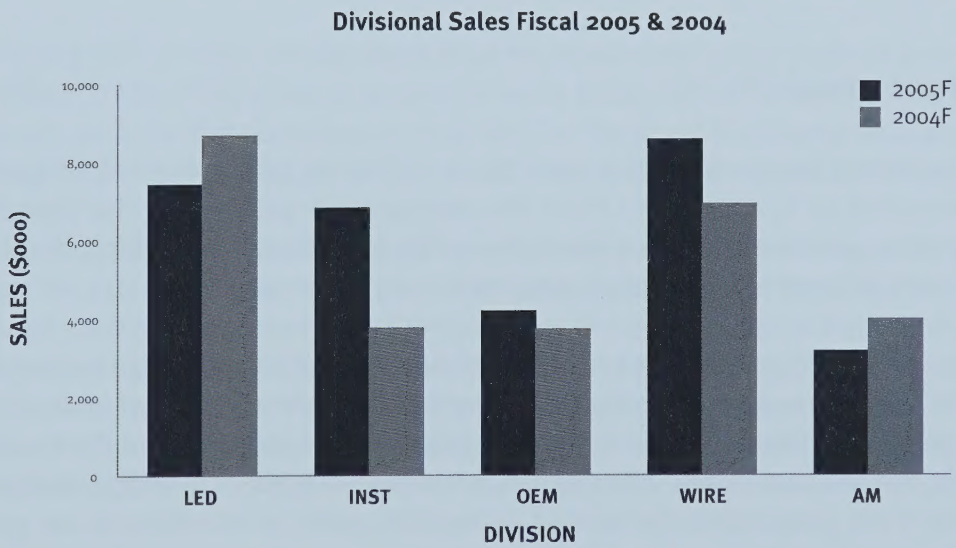


Figure 5



The Company operates in one business segment being the design, manufacture and delivery of electronic products and full service solutions to customers in Canada and the United States. Sales are predominately to customers in the United States, 86% in Fiscal 2005, (91% in 2004). Looking forward, Management predicts that the customer ratio between Canada and the USA will remain consistent between the 85% to 90% ratio.

LED LIGHTING PRODUCTS (LED)

Pacific Insight designs and manufactures LED lighting products for the automotive, commercial vehicle and trailer industries including items such as stop-turn tail lights, backup lights, license plate lights, and side indicator lights.

For the fourth quarter of fiscal 2005, LED sales were $1.89 million or 21% of sales, as compared to $2.81 million or 36% of sales for the comparative quarter of fiscal 2004. Full year LED sales were $7.39 million in fiscal 2005 as compared to $8.69 million in fiscal 2004. LED sales represented 25% of fiscal 2005 overall sales versus 33% for the comparative 2004 year.

The variance between fiscal 2005 fourth quarter sales versus fiscal 2004 fourth quarter sales was due to the foreign exchange rate shift, the timing of orders, and the consolidation of existing product lines. Annual sales for the LED division would have been within 5% comparatively if the foreign exchange rate had remained constant. Management is anticipating unit sales for fiscal 2006 to be consistent with fiscal 2005, based on the current order book and confirmed new product launches.

Management views the LED division as an important component in its business plans due to the vast opportunities that exist in the vehicular lighting market. The Company has purchased additional manufacturing equipment and invested considerable engineering resources to improve time-to-market on new programs, increase productivity and maximize throughput for this division. The Company will continue to invest in research and development (R&D) to improve our current product line and develop new products with a focus on high value added innovative lighting solutions.

INSTRUMENTATION PRODUCTS

Sales in the instrumentation product lines were $2.15 million or 24% of the fourth quarter's total sales as compared to $946,000 or 12% in the comparative quarter. For the 2005 fiscal year, instrumentation sales were $6.70 million versus $3.53 million for the 2004 fiscal year. This represents 22% of 2005 total revenue compared to 13% last year.

The growth in quarterly and annual sales is due to the Company's expanding customer base and the continued strength of existing customers in the commercial and heavy truck industry. Pacific Insight's largest customer has approximately doubled their daily heavy truck build rate in the last two years. Although most of the Company's instrumentation products customers are geographically located in the USA, sales in this division are primarily in Canadian dollars and are not impacted by foreign exchange variances as much as U.S. denominated sales. Management believes this division has excellent growth opportunities and continues to invest in R&D. Based on the first two months of unit sales in fiscal 2006, Management anticipates this strong trend to continue throughout the year. Examples of instrumentation products designed and manufactured by Pacific Insight are: speedometers, fuel level gauges, turbo boost indicator gauges, and LED indicator light bars (warning lights).

ORIGINAL EQUIPMENT PRODUCTS (OE)

The Original Equipment Division sales for the fourth quarter were $1.74 million or 19% of sales as compared to $942,000 or 12% of sales for the comparative quarter. For the year, OE sales were $4.2 million versus $3.6 million last year or 14% of total sales for both years.

During the month of June 2005 the company launched the much anticipated turn stalk module product line for a heavy truck manufacturing customer. This new product launch in conjunction with strong sales to the commercial vehicle market assisted this division in achieving the strongest quarterly and annual sales results in over two years.

The OE division has been a key component of the Company's growth since Pacific Insight was founded and has traditionally been the driving force in sales and innovation. The Company currently has products in the late, mid and preliminary stages of development and is actively pursuing projects with new and existing OE customers. The OE division will also continue to benefit from growth in the heavy truck industry and the Company's expanding customer base in that sector. We are expecting the positive trend to continue this next fiscal year based on customer demand, and the strong sales performance in the beginning of fiscal 2006.

The Company will continue to invest in R&D to improve our current product lines and develop new products. Examples of OE products designed and manufactured by Pacific Insight are: daytime running light modules, heated seat control modules, and turn-stalk control modules.

WIRE AND CABLE PRODUCTS

The Company had another record sales quarter in wire and cable product lines with sales of $2.49 million in Q4 of fiscal 2005 as compared to $1.84 million or 27% of the fourth quarter's sales versus 24% for the comparative quarter. For the 2005 fiscal year wire and cable sales were $8.47 million versus $6.58 million or 28% of total sales versus 25% last year.

The Wire and Cable Division sales grew by 35% over the comparative quarter and 29% over last year. The sales increases were due to increased sales to current customers as a result of the strong heavy truck market. The Company continues to invest in automated equipment and efficiency improvements to increase capacity and profitability. Management expects to exceed fiscal 2005 sales for the upcoming year based on customer demand. The preliminary results for the first quarter in 2006 indicate the trend in sales growth is continuing at the 30% level and Management expects this trend to continue for the balance of the 2006 fiscal year.

In this division Pacific Insight manufactures wiring harnesses for the commercial vehicle, trailer, and marine industries. The harnesses range in complexity from a single ground strap harness, which is one wire with a connector on each end, to main electrical cab vehicular harness which is up to 30 meters long with dozens of wires and connectors that link entire sections of a vehicle.

AFTER MARKET PRODUCTS

The After-Market product lines sales were $897,000 as compared to $1.18 million for the comparative quarter or 10% of the quarter's sales versus 15% in the comparative quarter. For the year After-Market sales were $3.29 million versus $4.07 million last year or 11% of total sales versus 15% last year.

This division has undergone a product shift over the last year away from automotive security products toward more general electronic modules. Sales of electronic flasher modules increased by 21% and electronic control modules increased by 85%. Sales of both the control modules and the flasher modules benefited from the strong heavy truck market. As the shift in product lines suggests, management has and will continue to expand and diversify this division, especially with products that benefit from the R&D investments in our OE lines.

GROSS MARGINS

Cost of sales in the fourth quarter of 2005 and 2004 was 75% versus 73% of sales respectively. Annual gross profit margins for the two fiscal years remained flat at 21%. As indicated in the chart below, the gross margins have been impacted by the strengthening of the Canadian dollar over the last several years.

Figure 6

All figures in Canadian $	For the fiscal year ended June 30			
	2005	**2004**	**2003**	**2002**
Sales	**30,065,000**	26,440,000	25,512,000	20,412,000
Cost of sales	**23,762,000**	20,768,000	19,289,000	14,419,000
Gross profit	**6,303,000**	5,672,000	6,222,000	5,993,000
Cdn/US Fx rate	**1.2494**	1.3432	1.5097	1.5686
Gross margin%	**21%**	21%	24%	29%

In addition to the foreign exchange effects on gross margins, in fiscal 2005, the company incurred a $527,000 write down of inventory versus $264,000 in the previous fiscal year. The inventory obsolescence adjustment is due to the evolution of our product lines, the stage of existing products in their life cycle, and changing customer demands.

Management plans to continue to implement manufacturing efficiencies, and cost savings in material purchases, while improving quality in order to achieve sustainable gross margin increases. Management is anticipating gross margins to improve in fiscal 2006, however this is also dependent on the effects of foreign exchange in the coming year.

Amortization expense of plant and equipment was up 50% or $247,000 from fiscal 2004. This increase is due to the investments in production and productivity assets during the year.

Selling, general and administrative ('SG&A') expenses were $786,000 this quarter as compared to $618,000 (8.5% and 8% of sales respectively). For the year SG&A was $3.55 million or 12% of sales versus $2.91 million or 11% of sales for last year. The cost increases year over year were $638,000 or 22%. The main factors behind the cost increases were:

1. Administrative expenses increased $300,000 or 33% over last year due to additions in management and administrative positions. These additional resources will allow for growth into the foreseeable future.

2. Research and development expenditures are up $290,000 or 35% over last year (net of capitalization and amortization of development costs). It is essential to continue R&D programs to develop new products and improve existing products with the object of maintaining and increasing sales. In order to maximize the return on the investments in this area management has initiated programs to narrow the focus and increase the quality of engineering projects.

Other income for the fourth quarter and last year's comparative quarter was $42,000. For the 2005 fiscal year, other income was $207,000 versus $106,000 for the comparative year. The largest portion of the annual variance in other income was interest we received on prior years' tax reassessments. We do not currently have any other tax reassessments pending.

Income tax expense for the fourth quarter was lower than the corresponding period due to lower taxable income. For the 2005 fiscal year, income taxes were $813,000 versus $798,000 for the 2004 fiscal year. During the year ended June 30, 2005, the Company received government assistance of $118,448 (2004 - $142,347) in the form of investment tax credits pertaining to manufacturing plant and equipment investments that was reflected as a reduction of the cost of these assets, with amortization in future periods to be calculated on the net amount. The investment tax credits reflected in the financial statements in the year ended June 30, 2004 pertained to scientific research and development and were partially recorded as a reduction of capitalized product development costs ($72,081), with the remainder credited to earnings.

Earnings before interest, taxes, depreciation, and amortization (EBITDA) were $1.64 million in the fourth quarter of fiscal 2005 versus $1.62 million for the comparative quarter. EBITDA was $3.39 million for the year versus $3.14 million for the comparative year.

Net Income and Earnings per Share (EPS) in the fourth quarter of this year was $828,000 or 9% of revenue, and 11¢ EPS, versus last year's comparative quarter of $871,000 or 11% of revenue, and 11¢ EPS. Annual earnings were $1.41 million or 4.7% of revenue, and 18¢ EPS, versus last year's comparative period of $1.58 million or 6% of revenue, and 19¢ EPS. Managements' goal is to surpass fiscal 2005s' net earnings in fiscal 2006 despite the effects of the depreciating US Dollar. Preliminary indications are that net earnings in the first quarter of fiscal 2006 will surpass those of the first quarter of 2005.

Cash and cash equivalents as at June 30, 2005 remained strong at $1.64 million and working capital was $7.91 million compared with $2.20 million and $8.74 million respectively in 2004. During the year ended June 30, 2005 the company produced $3.20 million positive cash flow from operations. In order to increase shareholder value and lay the groundwork for future sales growth, the company invested $1.4 million in buying back Company shares and a further $2.35 million in R&D and production equipment. The Company currently has an unencumbered and highly liquid treasury consisting of cash and investment grade corporate bonds with a variety of maturity dates.

FINANCIAL CONDITION AND LIQUIDITY

Selected historical financial information

Figure 7

All figures in Canadian $	4th Quarter ended	3rd Quarter ended	2nd Quarter ended	1st Quarter ended	For the fiscal year ended June 30			
	June 30 2005	March 31 2005	Dec. 31 2004	Sept. 30 2004	2005	2004	2003	2002
Cash flow provided by operating activities	**1,479,000**	536,000	561,000	618,000	**3,198,000**	2,481,000	842,000	2,487,000
Cash as at period end	**1,644,000**	879,000	1,324,000	1,819,000	**1,644,000**	2,202,000	1,517,000	2,269,000
Working capital as at period end	**7,910,000**	7,410,000	7,655,000	8,169,000	**7,910,000**	8,739,000	7,962,000	7,553,000
Total assets as at period end	**19,980,000**	18,994,000	18,180,000	18,737,000	**19,980,000**	18,683,000	16,420,000	16,085,000

Liquidity: The Company has sufficient cash and working capital to meet current and anticipated commitments. Management is confident that the Company will continue to generate sufficient cash in the short and long term to maintain and grow the Company's operations. The Company also has the resources to deal with the foreign exchange changes and realign the business model to compete effectively in the current and future currency environments.

Inventories for the year ended June 30, 2005 were $4.44 million as compared to $4.41 million for the year ending June 30, 2004. As noted previously in the gross margin section, Management provided for a larger obsolescence provision in fiscal 2005 versus the fiscal 2004. The additional $263,000 write down of inventory is directly related to product life cycles and customer demands.

Property, plant, & equipment (PP&E) investments during the quarter were $324,000 versus $250,000 in the comparative quarter. The majority of the investments in the quarter were for manufacturing equipment and process. For the 2005 year, the Company invested $1.38 million in plant and equipment versus $676,000 for the prior year. During the year the Company received an investment tax credit of $118,000 that reduced the cost of plant and equipment assets. The Company is continuing its strategy of improving manufacturing

efficiencies and capacity by adding new equipment, tooling, and software. To date, all PP&E investments have been financed out of operations. The increased investments on plant and equipment have led to a corresponding increase in amortization expenses.

Capitalized product development costs of $244,000 were incurred in the quarter versus $376,000 in the comparative quarter. In fiscal 2005 $1.09 million was capitalized in product development costs versus $792,000 in fiscal 2004. We have expanded our engineering departments to meet customer demands for new product development. Investment in this area of the business is a critical component of our growth strategy.

Share capital transactions for the year are detailed in the following charts. The Company has an active Normal Course Issuer Bid (NCIB) program in place. During the fourth quarter 78,200 shares were repurchased at an average price of $2.00 per share, for a total consideration of $156,073. During the year ended June 30, 2005, 642,300 shares were repurchased for an average price of $2.21 per share, for a total consideration of $1,420,402.

Over the last three years the Company has repurchased 1,053,900 shares reducing the outstanding number of shares by about 12.5% from the June 30, 2002 balance of 8,429,568 shares. During the year the Company cancelled 798,700 shares that were held in the treasury. These shares had been purchased into the treasury through the NCIB process.

Figure 8

	For the fiscal year ended June 30			
	2005	2004	2003	2002
Shares Outstanding at year end	**7,439,072**	8,061,168	8,213,268	8,429,568
Weighted average number of shares outstanding (Basic)	**7,688,490**	8,131,779	8,372,638	8,387,749
Weighted average number of shares outstanding (Fully Diluted)	**7,847,828**	8,242,581	8,657,562	8,736,857

During the year a total of 20,204 stock options were exercised. The options were near their expiry date. The authorized share capital of the Company is 100,000,000 common shares without par value.

Figure 9

	Year ended June 30, 2005		Year ended June 30, 2004	
	Number of Shares	Amount	Number of Shares	Amount
Balance, beginning of year	8,268,868	$ 8,011,262	8,268,868	$ 8,011,262
Exercise of options	20,204	18,992	—	—
Cancellation of shares	(798,700)	(774,070)	—	—
	7,490,372	7,256,184	8,268,868	8,011,262
Treasury shares, beginning of year	(207,700)	(445,391)	(55,600)	(46,094)
Repurchased	(642,300)	(1,420,402)	(152,100)	(399,297)
Cancelled	798,700	1,836,038	—	—
	(51,300)	(29,755)	(207,700)	(445,391)
Balance, end of year	7,439,072	$ 7,226,429	8,061,168	$ 7,565,871

Stock options: The Company has reserved 1,725,000 common shares pursuant to a stock option plan (the Plan). Options to purchase common shares of the Company under the Plan may be granted by the Board of Directors to: certain executive officers, directors, employees, and consultants of the Company. Under the Plan, the exercise price of each option shall not be less than the weighted average closing price of the Company's shares for the five trading days preceding the date of the grant. The options can be granted for a maximum term of ten years.

A summary of options outstanding under the Plan as of June 30, 2005 and June 30, 2004, and changes during the periods ended on those dates are presented below:

Figure 10

	For the year ended			
	June 30, 2005		June 30, 2004	
	Number of Options	Weighted Average Option Price	Number of Options	Weighted Average Option Price
Outstanding, beginning of year	910,400	$ 2.23	900,400	$ 2.25
Granted	179,100	2.32	40,000	2.36
Exercised	(20,204)	0.94	—	—
Cancelled / Expired	(204,000)	3.61	(30,000)	2.88
Outstanding, end of year	865,296	$ 1.96	910,400	$ 2.23

All outstanding options are currently exercisable.

The following table summarizes information about stock options outstanding at June 30, 2005:

Figure 11

Number of Options	Exercise Price	Expiry Date
184,396	$ 1.43	February 22, 2006
73,000	3.06	November 15, 2006
1,000	3.10	December 31, 2007
19,000	1.30	October 21, 2008
110,000	1.38	November 30, 2008
40,000	1.45	December 2, 2008
172,800	1.85	February 7, 2009
46,000	3.06	December 16, 2009
179,100	2.32	September 24, 2011
40,000	$ 2.36	May 7, 2014
865,296		

Dividend policy: The Company does not currently have a dividend program and in the short term has no plans to institute one.

Financing resources: The Company has an operating line of credit facility in place for up to $3,000,000, bearing interest at variable rates per annum not exceeding the bank's prime rate of interest. The facility is secured by a General Security Agreement as well as certain assets of the Company including accounts receivable, inventories, property, and requires the Company to adhere to several covenants. As at June 30, 2005 the entire facility was unused and available.

Other matters:

1. The Company has had no transactions with related parties during the year.
2. The Company has no material off-balance sheet financing arrangements.
3. The Company incurred nominal interest expense during the quarter on the line of credit.
4. The Company currently has no material proposed asset or business acquisition or disposition that has been approved by the Board of directors or that has been proposed by management believing that confirmation by the board of directors is probable.
5. The Company is co-defendant in a legal case before the US District Court of the District of Colorado in relation to patent infringement. The Company intends to vigorously defend its position in these matters. Legal counsel has indicated it is unlikely that the plaintiff will be successful in the claim. Therefore, there is no provision in the financial statements for this claim.
6. The Company experienced no subsequent events that would materially alter this MD&A or the June 30, 2005 financial statements.

RISK AND UNCERTAINTIES

Dependence on Major Customers

The Company has four significant customers and although these customers are large blue chip entities, any disruption in the Company's relationships with these major customers or any decrease in revenue from these major customers, could have a material adverse effect on the Company. In addition, operating results could be adversely affected if one or more of these major customers cancel, delay or reduce significant orders in the future. During the year ended June 30, 2005 sales to the four largest customers amounted to 31%, 24%, 5%, and 5% of total revenue; in the comparative year the figures were 31%, 27%, 7%, and 6%.

Sources and Availability of Raw Materials

Most of the raw materials utilized by the Company are obtained from suppliers in North America. The Company is not dependent on any one supplier. Raw materials supply factors such as allocations, pricing, quality, timeliness of delivery, transportation and warehousing may affect the raw material sourcing decisions of the Company. When appropriate and available, the Company has in the past and may continue to negotiate long term agreements with raw material suppliers to attempt to ensure continued availability on favorable terms. In the event of significant unanticipated increase in demand for the Company's products and therefore of component raw materials, the Company may in the future be unable to manufacture certain products in a quantity sufficient to meet its customers demand in any particular period.

Technological Change

The automotive, commercial vehicle, off road and marine industries are subject to technological changes, new product introductions, and evolving industry requirements and standards. Accordingly, the Company believes that its future success depends on its ability to launch new programs as well as enhance or develop current and future products at competitive prices and in a timely manner. The Company's inability to enhance, develop, or launch products in a timely manner in response to changing market conditions or customer requirements could also have an adverse effect on the Company's results of operations. For the development and production of products, the ability for the Company to compete successfully will depend on its ability to acquire and retain production associates, management, and product development staff that allow the Company to quickly adapt to technological change and advances in processes. In addition, there can be no assurance that products or technologies developed by others will not render the Company's products uncompetitive or obsolete.

Capital and Liquidity Risk

The amount of financial resources available to invest for the enhancement of shareholder value is dependent upon the size of the treasury, profitable operations, and a willingness to utilize debt and issue equity. Due to the size of the Company, financial resources are limited. Some of our competitors have far greater financial resources available to them. If the Company exceeds growth expectations or finds investment opportunities it may require debt or equity financing. There is no assurance that the Company will be able to obtain additional financial resources that may be required to successfully finance transactions or compete in its markets on favorable commercial terms. The Company's current credit facility requires compliance with certain financial covenants. There can be no assurance of the Company's

ability to continue to comply with these financial covenants or to appropriately service any debt given unforeseen events.

Acquisition and Expansion Risk

The Company intends to expand its operations through organic growth and depending on certain conditions, by acquiring additional businesses, products or technologies. There can be no assurance that the Company will be able to identify, acquire or profitably manage additional businesses, or successfully integrate any acquired businesses, products or technologies into the Company without substantial expenses, delays or other operational or financial problems.

Foreign Currency Risk

The Company typically negotiates sales contracts and purchases materials, equipment and products in US currency. The Company's US dollar cash requirements for the purchases of materials and certain capital equipment denominated in US dollars are naturally hedged when contracts to sell products are also denominated in US funds. In an effort to manage the remaining exposure to foreign currency risk, the Company employs hedging programs primarily through the use of forward contracts. The contracts are purchased based on the projected US dollar cash flows from operations. The Company uses forecasted future cash flows of Canadian and US dollars to determine the level of hedges required. The purpose of the Company's foreign currency hedging activities is to minimize the effect of exchange rate fluctuations on business decisions and the resulting uncertainty on future financial results. Despite measures taken by the Company to mitigate the impacts of shifting relative currency values, currency risk still exists, and could impact the financial results of future operations. As at June 30, 2005, the Company had entered into forward contracts to sell US $2,700,000 at an average rate of 1.3399. The contracts come due one per month until June15, 2006. The contracts were sized to deal with the majority of US cash conversion needs. As at June 30, 2005 the unrealized gain from these contracts was $309,150. The Company does not hold or issue derivative financial instruments for trading or speculative purposes and controls are in place to detect and prevent these activities.

Credit Risk

As at June 30, 2005 customers with the four largest accounts receivable balances amounted to 25%, 21%, 13%, and 9% of total accounts receivable; at the comparative year end the figures were 39%, 19%, 11%, and 4%. The Company's largest accounts receivable are with four customers in the automotive and commercial vehicle industries and are subject to normal industry credit risks. The Company is exposed to credit risk only with respect to uncertainties as to the timing and amount of collectibility of accounts receivable. The Company mitigates credit risk through standard credit and reference checks.

Competition

The electronic component and wiring harness design and manufacturing industry is characterized by a large number of manufacturers. As a result, manufacturers such as Pacific Insight are smaller niche players in the market. The Company faces numerous sources of competition, including direct competitors and product alternatives. The Company believes that there are a large number of suppliers which have the capability to produce some or all of the components, modules and products which the Company currently produces. In addition,

some of these competitors are larger and have access to greater resources than the Company and some of them operate in countries where the cost structure is significantly lower than in Canada. The Company believes that none of the competitors are dominant in the markets in which Pacific Insight operates. The basis for supplier selection by our customers is not typically determined solely by price, but also includes such elements as quality, service, historical performance, timeliness of delivery, scope of in-house capabilities, existing agreements, responsiveness and the overall relationship. Where practicable, the Company will patent technology in order to protect and grow market position.

Insurance

The Company's business subjects it to the risk that it may incur product liability claims, warranty or recall claims, as well as business interruption claims. No assurance can be given that the insurance coverage or insurance coverage limits of the company would be adequate to protect it against any claims for product liability claims, warranty or recall claims, or business interruption claims that may arise. Insurance is expensive and the insurance market is continually changing, therefore insurance may not be available on acceptable terms, or at all. Any uninsured or underinsured product liability claims, warranty or recall claims, or business interruption claims could have a material adverse effect on the company's financial condition, results of operations and prospects.

Tax Laws

The tax laws in Canada and abroad are continuously changing. Recently, corporate tax rates in Canada have been on the decrease. There is no assurance that rates will continue to decrease in Canada or that Canada's tax system will remain competitive internationally.

Emission Standards

Recent changes in emission standards in North America may affect the future sale of motorized products produced by our customers. Canada, and other countries where the company's products are sold, have implemented the Kyoto Protocol, which sets limits for emission standards. The effect of these standards has not been fully analyzed by the automotive, heavy truck, heavy equipment, and marine industries and its full effect on the financial stability of the Company and its customers is as yet undetermined.

Environmental Matters

The Company's office and manufacturing facility meets the ISO 14001 standard. To date, environmental laws and regulations have not had a material affect on the Company's operations or financial condition. Management is not aware of any environmental liability facing the company at this time.

Dependence on Key Personnel

Loss of certain members of the executive team or key technical leaders of the company could have a disruptive effect on the implementation of the Company's business strategy and the efficient running of day-to-day operations until their replacement is found. Recruiting personnel is time consuming and expensive and the competition for professionals is intense. The Company may be unable to retain its key employees or attract, assimilate, retain or train other necessary qualified employees, which may restrict its growth potential.

OUTLOOK

Growth

Pacific Insight expects to continue to grow both sales and earnings in a controlled manner over the next several years. The growth is anticipated due to actual customer demand, and the contacts our management team and sales force has with our existing customer base. Management will support the growth by devoting its resources on operational efficiencies, strategic sales growth, customer satisfaction, and employee development. However we have in the past and will continue to evaluate the acquisition of existing companies that compliment our core competencies and add value. At the current time the Company has not found a suitable business that meets our requirements.

Accounting Estimates

Significant areas that involve management estimates in preparing financial statements include provisions for uncollectible accounts receivable (bad debts), the amortization rate of plant and equipment, provision for product warranty, and provisions for obsolete inventory. Management and the external auditors do not believe that any of these estimates have materially misstated the Company's financial position or results of operations, however, actual results could differ from these estimates. Other accounting estimates and accounting policies are detailed in the notes to the financial statements.

Forward Looking Statements

Certain information provided by Pacific Insight in the financial statements, MD&A and other documents published throughout the year that are not recitation of historical facts may constitute forward-looking statements. The words "estimate", "believe", "expect" and similar expressions are intended to identify forward-looking statements. Persons reading this report are cautioned that such statements are only predictions and the actual events or results may differ materially. In evaluating such forward-looking statements, readers should specifically consider the various factors that could cause actual events or results to differ materially from those indicated by such forward-looking statements.

Such forward-looking information may involve important risks and uncertainties that could materially alter results in the future from those expressed or implied in any forward-looking statements made by, or on behalf of the Company. The factors which are expected to have the greatest impact on Pacific Insight include, but are not limited to the items outlined in the risks and uncertainties section of this MD&A. The Company assumes no obligation to update the forward-looking statements or to update the reasons why actual results could differ from those reflected in the forward-looking statements.

For further information, please visit our web site at www.pacificinsight.com. For Corporate Relations, please contact our toll free line: 1-800-995-1155 or email investor@pacificinsight.com.

The financial statements and other financial information in these financial statements were prepared by the management of Pacific Insight Electronics Corp., (the Company) reviewed by the Audit Committee, and approved by the Board of Directors.

Management is responsible for the financial statements and believes that they present fairly the Company's financial condition and results of operations in conformity with Canadian generally accepted accounting principles. Management has included in the Company's financial statements amounts based on estimates and judgments that it believes are reasonable under the circumstances.

Systems of internal accounting and administrative controls are maintained by management in order to provide reasonable assurance that financial information is relevant, reliable and accurate and that transactions are authorized, assets are safeguarded and proper records are maintained. Consistent with the concept of reasonable assurance, the Company recognizes that the relative cost of maintaining these controls should not exceed their expected benefits.

The Board of Directors is responsible for ensuring that management fulfills its financial reporting and internal control responsibilities and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit Committee.

Pacific Insight Electronics Corp.'s external auditors have conducted an independent audit of the financial statements in accordance with Canadian generally accepted auditing standards on behalf of the shareholders. The external auditors have full and free access to the Audit Committee and the Board of Directors. The audit report outlines the scope of their examination and their opinion.

"Bradley Smithson"

Bradley Smithson
President, CEO

"Stuart D. Ross"

Stuart D. Ross
Chief Financial Officer

DAVIDSON & COMPANY LLP Chartered Accountants A Partnership of Incorporated Professionals

To the Shareholders of
Pacific Insight Electronics Corp.

We have audited the balance sheets of Pacific Insight Electronics Corp. as at June 30, 2005 and 2004 and the statements of operations and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada

Chartered Accountants

August 5, 2005

A Member of SC INTERNATIONAL

1200 - 609 Granville Street, P.O. Box 10372, Pacific Centre, Vancouver, BC, Canada, V7Y 1G6
Telephone (604) 687-0947 Fax (604) 687-6172

BALANCE SHEETS

As at:		June 30 2005		June 30 2004
ASSETS				
Current assets				
Cash and cash equivalents	$	**1,644,118**	$	2,202,291
Accounts receivable		**5,104,276**		4,182,210
Inventories *[note 2]*		**4,437,900**		4,409,961
Prepaid expenses and deposits		**4,281**		226,508
Income taxes receivable		**8,697**		49,072
		11,199,272		11,070,042
Property, plant, and equipment *[note 3]*		**7,134,039**		6,636,684
Product development costs *[note 4]*		**1,647,140**		976,622
	$	**19,980,451**	$	18,683,348
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Accounts payable and accrued liabilities	$	**3,288,629**	$	2,331,500
Future income taxes *[note 5]*		**1,236,000**		957,000
		4,524,629		3,288,500
Shareholders' equity				
Share capital *[note 6]*		**7,226,429**		7,565,871
Contributed surplus *[note 6]*		**76,921**		26,199
Retained earnings		**8,152,472**		7,802,778
		15,455,822		15,394,848
	$	**19,980,451**	$	18,683,348

Contingencies *[note 11]*
The accompanying notes are an integral part of these financial statements.

Approved on behalf of the Board of Directors:

"J. Cowan McKinney"

J. Cowan McKinney
Chairman of the Board

"Stuart D. Ross"

Stuart D. Ross
Director

STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

	Year ended June 30 2005	2004
Sales	$ 30,064,600	$ 26,440,172
Cost of sales	23,761,683	20,767,735
Gross profit	6,302,917	5,672,437
Expenses		
Amortization of plant and equipment	737,740	490,438
Selling, general, and administrative	3,547,453	2,909,261
	4,285,193	3,399,699
Operating earnings	2,017,724	2,272,738
Other income	206,719	105,656
Earnings before income taxes	2,224,443	2,378,394
Income tax expense *[note 5]*	812,781	798,075
Net earnings	1,411,662	1,580,319
Retained earnings, beginning of year	7,802,778	6,222,459
Repurchase excess *[note 6]*	(1,061,968)	—
Retained earnings, end of year	$ 8,152,472	$ 7,802,778
Net earnings per common share		
Basic	$ 0.18	$ 0.19
Diluted	$ 0.18	$ 0.19
Weighted average number of common shares		
Basic	7,688,490	8,131,779
Diluted	7,847,828	8,242,581

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS

	Year ended June 30 2005	Year ended June 30 2004
OPERATING ACTIVITIES		
Net earnings	$ **1,411,662**	$ 1,580,319
Items not involving cash		
Amortization of plant and equipment	**737,740**	490,438
Amortization of product development costs	**418,655**	269,606
Stock-based compensation expense	**50,722**	26,199
Future income taxes	**279,000**	205,000
Write off of equipment	**30,100**	—
	2,927,879	2,571,562
Net changes in non-cash working capital balances related to operations *[note 9]*	**269,726**	(90,657)
Cash flows provided by operating activities	**3,197,605**	2,480,905
FINANCING ACTIVITIES		
Issuance of share capital	**18,992**	—
Repurchase of share capital	**(1,420,402)**	(399,297)
Cash flows used in financing activities	**(1,401,410)**	(399,297)
INVESTING ACTIVITIES		
Property plant and equipment additions	**(1,383,643)**	(675,893)
Deferred product development cost additions	**(1,089,173)**	(792,352)
Reduction in assets for investment tax credits *[note 7]*	**118,448**	72,081
Cash flows used in investing activities	**(2,354,368)**	(1,396,164)
Change in cash and cash equivalents	**(558,173)**	685,444
Cash and cash equivalents, beginning of year	**2,202,291**	1,516,847
Cash and cash equivalents, end of year	$ **1,644,118**	$ 2,202,291

The accompanying notes are an integral part of these financial statements.
For supplemental disclosure with respect to cash flows, see Note 9.

June 30, 2005

1. SIGNIFICANT ACCOUNTING POLICIES

a. **Description of business** – Pacific Insight Electronics Corp. (the Company) designs, manufactures and delivers electronic products and full service solutions to the automotive, commercial vehicle, off-road, and marine markets.

b. **Use of estimates** – The preparation of financial statements in accordance with Canadian generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities and the reported amount of revenues and expenses. Actual results could differ from these estimates.

c. **Cash and cash equivalents** – Cash and cash equivalents consists of cash and highly liquid investments.

d. **Inventories** – Finished products are valued at the lower of average cost and net realizable value. Other inventories are valued at the lower of average cost and replacement cost which is not in excess of net realizable value.

e. **Property, plant, and equipment** – Property, plant, and equipment is recorded at cost. Amortization is provided over the assets' estimated useful lives on a straight-line basis at the following annual rates:

Plant 2.5% - 3.3% Equipment 6.0% - 20.0%

f. **Research and development** – Product development costs relating to products that the Company believes are technically feasible and for which a clearly defined market exists are capitalized. Such costs are amortized to cost of sales over periods not exceeding the estimated revenue-generating life of the product. If costs are later determined to be unrecoverable or the product is no longer considered commercially viable, all unamortized costs are immediately charged to earnings. Research costs are expensed as incurred. Investment tax credits (ITC's) are accrued when reasonable assurance is obtained that the credits will be realized. ITC's are accounted for using the cost reduction approach. Those ITC's related to capital expenditures, such as product development costs, are reflected as a reduction of the cost of the related assets, with amortization calculated on the net amount. Those ITC's related to operating expenditures are recorded as a reduction of expense.

g. **Impairment of long-term assets** – The Company periodically reviews the useful lives and the carrying values of its long-lived assets. The Company reviews for impairment in long-lived assets whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. If the sum of the undiscounted expected future cash flows expected to result from the use and eventual disposition of an asset is less than its carrying amount, it is considered to be impaired.

1. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

h. **Asset retirement obligation** – Effective July 1, 2004, the Company adopted the new Canadian Institute of Chartered Accountants (CICA) standard for accounting for asset retirement obligations. Under the new standard, the Company recognizes asset retirement obligations in the period in which they are incurred if a reasonable estimate of a fair value can be determined. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. The liability is increased due to the passage of time, with an offsetting charge to accretion expense in the income statement, over the estimated time period until settlement of the obligation and the asset is depreciated over the estimated useful life of the asset. During the year the Company undertook to identify assets impacted by the new standard. Currently the Company has no identifiable asset decommissioning costs and thus a future retirement obligation is not determinable.

i. **Revenue recognition** – The Company recognizes revenue from the sale of products when the products are delivered and collection is reasonably assured. Revenue from services such as contract engineering, research, or product development is recognized when collection is reasonably assured and the contract is complete.

j. **Product warranties** – The Company provides product warranties on certain products pursuant to the manufacturing contract, and makes provision for the anticipated cost of these warranties through cost of sales; this provision is reviewed periodically to assess its adequacy in the light of actual warranty costs incurred.

k. **Foreign exchange translation** – The Company's foreign currency transactions are translated into Canadian dollar equivalents at the rates in effect at the date of the transaction. At the balance sheet date, monetary assets and liabilities are translated at the rates in effect on that date. Exchange gains and losses are reflected in earnings as they occur.

l. **Hedging** – The Company enters into hedges of its foreign currency exposures on foreign currency denominated long-term debt by entering into offsetting forward exchange contracts, when it is deemed appropriate. The Company also purchases foreign exchange forward contracts to hedge anticipated cash conversion needs.

m. **Income taxes** – Income taxes are provided for using the asset and liability method of tax accounting whereby future income tax assets and liabilities are determined based on temporary differences (differences between the accounting basis and tax basis of the assets and liabilities) and are measured using the currently enacted, or substantively enacted, tax rates and laws expected to apply when these differences reverse.

n. **Stock-based compensation** – The Company has adopted CICA Handbook Section 3870 "Stock-based compensation and other stock-based payments", which establishes standards for the recognition, measurement, and disclosure of stock-based compensation, and other stock-based payments made in exchange for goods and services. The fair value of the options is determined at the date of grant using the Black-Scholes option pricing model and is accrued

and charged to operations, with an offsetting credit to contributed surplus. Any consideration paid by the option holder to purchase shares is credited to share capital.

o. **Earnings per share** – Basic earnings per share is calculated based on net earnings divided by the weighted average number of shares outstanding during the year. Diluted earnings per share is computed using the treasury stock method, giving effect to the exercise of all dilutive elements. Under this method, deemed proceeds of the exercise of options and warrants are considered to be used to re-acquire common shares at an average share price.

	June 30, 2005	June 30, 2004
Weighted average number of common shares	**7,688,490**	8,131,779
Effect of dilutive stock options	**159,338**	110,802
Diluted weighted average number of common shares	**7,847,828**	8,242,581

p. **Comparative figures** – Certain of the comparative figures for the prior year have been reclassified to conform to the presentation adopted in the current year.

2. INVENTORIES

	June 30, 2005	June 30, 2004
Raw materials and work in process	**$ 3,960,723**	$ 3,892,164
Finished products	**477,177**	517,797
	$ 4,437,900	$ 4,409,961

3. PROPERTY, PLANT, AND EQUIPMENT

	Cost	Accumulated Amortization	Net Book Value
June 30, 2005			
Property	**$ 440,831**	**$ —**	**$ 440,831**
Plant	**3,761,519**	**402,467**	**3,359,052**
Equipment	**6,249,295**	**2,915,139**	**3,334,156**
	$ 10,451,645	**$ 3,317,606**	**$ 7,134,039**
June 30, 2004			
Property	$ 440,831	$ —	$ 440,831
Plant	3,839,822	299,238	3,540,584
Equipment	4,949,091	2,293,822	2,655,269
	$ 9,229,744	$ 2,593,060	$ 6,636,684

4. PRODUCT DEVELOPMENT COSTS

	Year Ended June 30	
	2005	2004
Balance, beginning of year	$ 976,622	$ 525,957
Additions	1,089,173	792,352
Investment tax credit	—	(72,081)
Amortization	(418,655)	(269,606)
Balance, end of year	$ 1,647,140	$ 976,622

5. INCOME TAXES

a) The Company's income tax provision differs from that obtained by applying the basic corporate tax rate to net earnings for the following reasons:

	Year ended June 30	
	2005	2004
Earnings before income taxes	$ 2,224,443	$ 2,378,394
Combined basic Canadian federal and provincial income tax rate	35.6%	36.6%
Income tax expected	791,902	870,491
Increase (decrease) resulting from:		
Manufacturing and processing credits	—	(23,784)
Additional tax deductions from prior years	—	(49,290)
Non-deductible items	20,879	658
	$ 812,781	$ 798,075

b) The Company's income tax expense is comprised of the following:

	Year ended June 30	
	2005	2004
Current tax expense	$ 537,735	$ 571,767
Future tax expense	275,046	226,308
	$ 812,781	$ 798,075

c) Significant components of the Company's future income tax liabilities are as follows:

	Year ended June 30	
	2005	2004
Property, plant, and equipment	**$ 656,000**	$ 616,000
Product development costs	**587,000**	348,000
Capital loss	**(7,000)**	(7,000)
	$ 1,236,000	$ 957,000

6. SHARE CAPITAL

a) The authorized share capital of the Company is 100,000,000 common shares without par value.

Details of issued and outstanding common shares are as follows:

	Year ended June 30, 2005		Year ended June 30, 2004	
	Number Of Shares	Amount	Number Of Shares	Amount
Balance, beginning of year	**8,268,868**	**$ 8,011,262**	8,268,868	$ 8,011,262
Exercise of options	**20,204**	**18,992**	—	—
Cancellation of shares	**(798,700)**	**(774,070)**	—	—
	7,490,372	**7,256,184**	8,268,868	8,011,262
Treasury shares, beginning of year	**(207,700)**	**(445,391)**	(55,600)	(46,094)
Repurchased	**(642,300)**	**(1,420,402)**	(152,100)	(399,297)
Cancelled	**798,700**	**1,836,038**	—	—
	(51,300)	**(29,755)**	(207,700)	(445,391)
Balance, end of year	**7,439,072**	**$ 7,226,429**	8,061,168	$ 7,565,871

Normal course issuer bid transactions – During the year ended June 30, 2005 the Company maintained a normal course issuer bid (NCIB), allowing shares to be repurchased for cancellation. During the year ended June 30, 2005, 642,300 shares were repurchased for an average price of $2.21 per share, for a total consideration of $1,420,402.

During the year ended June 30, 2005 the Company cancelled 798,700 shares that were held in the treasury. These shares had been purchased into the treasury through the NCIB process. The transaction booked on the cancellation of the treasury shares was: treasury reduced by the purchase price of the shares ($1,836,038), share capital reduced by the assigned value of the shares ($774,070), and the balance to retained earnings ($1,061,968).

During the year ended June 30, 2004, the Company also maintained an NCIB and 152,100 common shares were repurchased at an average price of $2.63 per share for a total consideration of $ 399,297.

b) **Stock options** – The Company has reserved for issuance 1,725,000 common shares pursuant to a stock option plan (the Plan). Options to purchase common shares of the Company under the Plan may be granted by the Board of Directors to certain executive officers and directors, employees and consultants of the Company. Under the Plan, the exercise price of each option shall not be less than the weighted average closing price of the Company's shares for the five trading days preceding the date of the grant. The options can be granted for a maximum term of ten years.

A summary of options outstanding under the Plan as of June 30, 2005 and 2004, and changes during the years then ended are presented below:

	Year ended June 30, 2005		Year ended June 30, 2004	
	Number of Options	**Weighted Average Option Price**	Number of Options	Weighted Average Option Price
Outstanding, beginning of year	**910,400**	**$ 2.23**	900,400	$ 2.25
Granted	**179,100**	**2.32**	40,000	2.36
Exercised	**(20,204)**	**0.94**	—	—
Cancelled / Expired	**(204,000)**	**3.61**	(30,000)	2.88
Outstanding, end of year	**865,296**	**$ 1.96**	910,400	$ 2.23

All outstanding options are currently exercisable.
The following table summarizes stock options outstanding as at June 30, 2005:

Number of Options	Exercise Price	Expiry Date
184,396	*$ 1.43*	*February 22, 2006*
73,000	*3.06*	*November 15, 2006*
1,000	*3.10*	*December 31, 2007*
19,000	*1.30*	*October 21, 2008*
110,000	*1.38*	*November 30, 2008*
40,000	*1.45*	*December 2, 2008*
172,800	*1.85*	*February 7, 2009*
46,000	*3.06*	*December 16, 2009*
179,100	*2.32*	*September 24, 2011*
40,000	*2.36*	*May 7, 2014*
865,296		

c) The Black-Scholes option pricing model calculation was based on the following underlying assumptions:

	2005	2004
Risk free interest rate	3.26%	3.92%
Expected life of the options granted	2 years	5 years
Expected volatility	16.00%	22.27%
Expected dividends	0.00%	0.00%

During the year ended June 30, 2005, 179,100 options were granted. The Board of Directors has approved an additional 320,900 options subject to: receipt of shareholder approval at the Company's next Annual General Meeting, or by the cancellation or expiry of options, and such options becoming available under the guidelines of the Company's stock option plan.

During the year ended June 30, 2005, stock-based compensation of $50,722 (2004 - $26,199) was charged to administrative expenses, with the offset recorded as contributed surplus. The weighted average fair value of stock options granted during the year was $0.28 each (2004 - $0.65 each).

d) The contributed surplus schedule is as follows, all contributed surplus generated from stock-based compensation:

Transaction	Number of Options Granted	Date Granted	Exercise Price	Contributed Surplus
Granting and vesting of options	40,000	May 7, 2004	$ 2.36	$ 26,199
Granting and vesting of options	179,100	Sep. 24, 2004	$ 2.32	$ 50,722
	219,100			$ 76,921

7. INVESTMENT TAX CREDITS

During the year ended June 30, 2005, the Company received government assistance of $118,448 (2004 - $142,347) in the form of investment tax credits pertaining to manufacturing plant and equipment investments that was reflected as a reduction of the cost of these assets, with amortization in future periods to be calculated on the net amount. The investment tax credits reflected in the financial statements in the year ended June 30, 2004 pertained to scientific research and development and were partially recorded as a reduction of capitalized product development costs ($72,081), with the remainder charged to earnings.

8. CREDIT FACILITY

The Company has an operating line of credit facility in place for up to $3,000,000, bearing interest at variable rates per annum not exceeding the bank's prime rate of interest. The facility is secured by a General Security Agreement as well as certain assets of the Company including accounts receivable, inventories, property, and requires the Company to adhere to several covenants. As at June 30, 2005 the entire facility was unused and available.

9. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

	Year ended June 30	
	2005	**2004**
Net changes in non-cash working capital balances related to operations		
Accounts receivable	**$ (922,066)**	$ (293,474)
Inventories	**(27,939)**	(585,053)
Prepaid expenses and deposits	**222,227**	(140,137)
Income taxes receivable	**40,375**	77,086
Accounts payable and accrued liabilities	**957,129**	850,921
	$ 269,726	$ (90,657)

A summary of the amount of interest paid and income taxes paid for the years ended June 30, 2005 and 2004 is presented in the following table:

	Year ended June 30	
	2005	**2004**
Income taxes paid	**$ 571,519**	$ 563,790
Interest paid	**10,834**	—
	$ 582,353	$ 563,790

Interest was paid on the line of credit facility.

10. SIGNIFICANT CUSTOMERS

During the year ended June 30, 2005 sales to the four largest customers amounted to 31%, 24%, 5%, and 5% of total revenue; in the comparative year the figures were 31%, 27%, 7%, and 6%.
As at June 30, 2005 customers with the four largest accounts receivable balances amounted to 25%, 21%, 13%, and 9% of total accounts receivable; at the comparative year end the figures were 39%, 19%, 11%, and 4%.

11. CONTINGENCIES

The Company is co-defendant in a legal case before the US District Court of the District of Colorado in relation to patent infringement. The Company intends to vigorously defend its position in these matters. Legal counsel has indicated it is unlikely that the plaintiff will be successful in the claim. Therefore, there is no provision in the financial statements for this claim.

12. FINANCIAL INSTRUMENTS

a) **Fair value -** The estimated fair value of cash and cash equivalents, accounts receivable, accounts payable, and accrued liabilities approximate their carrying value in the financial statements. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest risk arising from these financial instruments.

b) **Credit risk -** The Company is exposed to credit risk only with respect to uncertainties as to the timing and amount of collectibility of accounts receivable. The Company mitigates credit risk through standard credit and reference checks.

c) **Currency risk -** The Company is exposed to financial risk arising from fluctuations in foreign exchange rates and the degree of volatility of these rates. In order to reduce the risk of Canadian and US dollar currency exchange fluctuations, at June 30, 2005, the Company has entered into forward contracts to sell US $2,700,000 at an average rate of 1.3399. The contracts expire on June 15, 2006. As at June 30, 2005 the unrealized gain from these contracts was $309,150.

13. SEGMENTED INFORMATION

The Company operates in one business segment being the design, manufacture and delivery of electronic products and full service solutions to the automotive, commercial vehicle, off-road, and marine markets in Canada and the United States. Geographic information is as follows:

	Year ended June 30, 2005			Year ended June 30, 2004		
Sales						
Canada	$	**3,870,231**	**13%**	$	2,446,624	9%
United States		**25,949,181**	**86%**		23,919,139	91%
Other		**245,188**	**1%**		74,409	—
Total sales		**30,064,600**	**100%**		26,440,172	100%
Capital assets						
Canada		**7,134,039**	**100%**		6,636,684	100%
United States	$	—	—	$	—	—

CORPORATE INFORMATION

Board of Directors and Corporate Officers

J. Cowan McKinney	Chairman
Bradley D. Smithson	Director, Chief Executive Officer and President
Stuart D. Ross	Director, Secretary and Chief Financial Officer
Peter R.B. Armstrong	Director
Stuart O. McLaughlin	Director

Corporate Office

1155 Insight Drive
Nelson, B.C., Canada
V1L 5P5
www.pacificinsight.com

Auditors

Davidson & Company
Vancouver, B.C., Canada

Counsel, Registered and Records Office

McCullough O'Connor Irwin
Vancouver, B.C., Canada

Investment Information

Shares Listed: Toronto Stock Exchange ('TSX')
Trading Symbol – PIH

Common Shares Authorized:	100,000,000
Common Shares Outstanding (As at June 30, 2005):	7,439,072
Weighted Average Number of Common Shares (As at June 30, 2005):	7,688,490
Fully Diluted Number of Common Shares (As at June 30, 2005):	7,847,828

Transfer Agent

Computershare Trust Company of Canada
Vancouver, B.C. and Toronto, Ontario, Canada

Corporate Relations

Corporate information is available on the Company website www.pacificinsight.com and www.sedar.com

Corporate relations enquiries should be directed to 1 (800) 995 1155 or via email to investor@pacificinsight.com

www.pacificinsight.com

PACIFIC INSIGHT ELECTRONICS CORP.

1155 Insight Drive, Nelson, BC, Canada V1L 5P5 (P) 250.354.1155 1.800.995.1155 (F) 250.354.1166